

COMMISSIONER KRUEGER: Thank you very much.
We'll start down at the other side. Mike.

COMMISSIONER WESSEL: Thank you. I appreciate your testimony. Let me see if I can understand a couple of things about the industry. And my definitions may be off.

My understanding is that this covers not only computer chips, but D-RAM, et cetera. What has been the change in terms of production? My understanding is memory chips have basically become low-end commodities, if you will. That they are produced much more diverse in terms of the geographical nature, period, et cetera, but that the computing chips, there is much more production here in the U.S.; is that correct? And how does that make up?

MR. SCALISE: Well, a couple of comments. First of all, D-RAMS, memory chips, are produced with the leading edge technologies, so they may be looked upon as commodities, but they demand the best of the technology that's available.

As far as the production here in the U.S., we have regained a leadership position in D-RAMS with Micron Corporation. And as a consequence we're now in the leadership -- not the leader, but in the leadership area, now, of memory production once again.

MR. MAIBACH: We make about 70 percent of our microprocessors in the United States.

COMMISSIONER WESSEL: Let me also understand. We had a conversation in the previous panel with regard to export controls. And we've had debates in Congress, as you well know, over MTOPS, 2000 MTOPS and the various other computing power associated with microprocessors. If we were to go to a system, as Mr. Robson suggested or as many advocate, what kind of increased sales do you think you may be able to achieve overseas? What is the impact of our current export control laws on your opportunities in foreign markets?

MR. MAIBACH: Yes. The impact for Intel is basically on our customers, if you will, the computer makers, where they might lose sales, and significant sales. There is tremendous bureaucracy involved that shouldn't be. We basically support a mass-market exemption. If you sell more than, let's say, 100,000 of a particular chip around the world or 100,000 PCs of a certain power level, that those should be exempted. The rule of thumb might be if you can walk into a Radio Shack or Apprise or CompUSA and buy it, you shouldn't be able to -- you can't control it, and that should be the rule. We should pick a very few things and really protect them well.

The most powerful supercomputer is about 1.3 million MTOPS, millions of theoretical operations per second, and yet the U.S. computer control is 2,000.

And so 2,000 to 1.3 million, there's a huge range of computers we could decontrol and still control the most powerful ones.

COMMISSIONER WESSEL: And in terms of dollar sales, do you have an estimate?

MR. MAIBACH: We could get you one. I didn't bring it with me.

MR. SCALISE: There's another piece to that export control issue, though. Right now, for example, it's not just the MTOPS and related issues, it's the equipment that is necessary to produce the product, or the level of technology that is necessary to produce the product that is also being restricted. And as a consequence, Japan now has an arrangement with China which is called Project 909 which is allowing them to joint venture with a company in China to build very advanced products that we're not allowed to participate in. Given the rate of growth of the Chinese market, through this export control regime, we're not only disadvantaging U.S. producers, but we're also putting ourselves in the position where, as China develops, we may be a second tier player instead of the leading player that we deserve to be by virtue of our

technology, our cost structure, our innovativeness and all the rest that we bring to the marketplace.

COMMISSIONER KRUEGER: Murray.

CHAIRMAN WEIDENBAUM: I have a question for Mr. Scalise. On page five of your written testimony, you list objectives for China's succession to the WTO.

And I'm intrigued by the third one. You want to require them to base purchasing decisions of their state enterprises on commercial considerations. That has a nice ring to it until I think about all of the federal, state and local purchasing agencies in this country that have buy American restrictions, buy Missouri restrictions, buy St Louis restrictions. And frankly, the reason I bring this up, in a previous life when I was discussing many of these issues with my counterparts in foreign governments they showed a great -- whenever I point out shortcomings in their trade policies, they had a very detailed knowledge of our shortcomings. You can needlessly embarrass yourself and not accomplish very much if you just look at this as a one-way street.

MR. SCALISE: Well, we don't look at it as a one-way street. In fact, we get that thrown back at us all the time that your export control laws are damaging to us. And we agree with that. And that's why some of the things that Mike was talking about and

that I just mentioned we would like to see changed so that our export control laws do allow for a better competitive environment out there.

But as it relates to the purchasing, I don't agree with the restrictions that we see in many instances. I think it's a mistake and I don't think we get the best bang for our buck. But what we're really talking about is commercially driven decisions, not those that are state directed. What they're going through this transition from the government owned and controlled industries to privatization, it's necessary that the decisions in both kinds of organizations be commercially driven, as they are here. So, that's really where we're focused with regard to that particular point.

COMMISSIONER BECKER: Could I pick up on that point?

COMMISSIONER KRUEGER: Okay. George.

COMMISSIONER BECKER: When we talk about the competitive or comparative advantage, usually we're talking about managerial skills, the kinds of products, the efficiency, the marketability of products. But should a nation, like China, get a comparative or competitive advantage over human rights or child labor, or should they be able to draw a comparative or competitive advantage as a result of not ascribing to

what society would generally hold up as minimal acceptable standards? Should that figure be in there at all in your equation of bullet number four, commercially viable terms?

MR. MAIBACH: Yes, the best, I think, at least this businessman can do on that is to say we do have a small plant in Pu Dong. It's an assembly plant. We build the semiconductors elsewhere. And we use the same human rights, if you will, or same employee relations standards there as any other place on the planet. As a matter of fact, when we opened that facility we had to get governmental permission to have stock options because 100 percent of Intel employees get stock options, and this was not heard of by that particular government at that time. And the best we can do is export our ideals, if you will, from how we treat people all around the world. I can't respond to all the people in China and how they're --

COMMISSIONER BECKER: Let's expand on that just a little bit. Should a company be, in effect, driven out of business here in the United States because it cannot, quote, compete against the competitive advantage or comparative advantage that the Chinese would have for non-adherence to these minimal acceptable standards? Should there not be some way to,

quote, level that playing field in there? Shouldn't sanctions or something be granted?

MR. MAIBACH: Well, of course, competitiveness is very complicated. Education, cost of capital, productivity in the machines, the technology, the stability of the government. There are all kinds of things. And once you go down that road, I think, of trying to say, well, this is an advantage is this -- I mean, the list becomes very long. I think there are basic rules of conduct in the trade system under the GATT and the WTO that we adhere to, and other UN-based standards for treatment of people. But Intel does not have a deep knowledge of all of the things that you're probably referring to.

COMMISSIONER BECKER: It is important to note, as Mike said, that one of the things the industry promotes and drives very hard is that environmental work and safety and health, generally speaking, is exported around the world. The way we treat people at the manufacturing facility we build here and operate here is the way we do it all around the world. We want to make certain that everyone gets treated the same way. There isn't any distinction whether you're in country A, country B or here at home. There is no change whatsoever.

COMMISSIONER KRUEGER: Okay, Richard.

COMMISSIONER D'AMATO: Thank you for your testimony. I wanted to ask you a series of questions based on some of the things you said. On page three, when you talk about the United States regaining our lead vis-à-vis the Japanese, I recall in the '80s -- I was working in the Senate at the time -- we were very concerned about the behavior of the Japanese. And as I recall, maybe refresh our memory, were there bilateral sanctions placed on the Japanese at that time by us in order to regain our lead?

MR. SCALISE: What happened was this, there were two issues. One was the lack of access to the Japanese market. We filed the 301 case to deal with that. The second was the predatory practices of dumping, which we filed dumping cases in D-RAMS and EPROMS to deal with that.

Once we won both of those we then had the option. We could either go with some kind of compensatory arrangement that would -- would put tariffs on them or quantitative restrictions or we could set up something that would really be very pro-competitive, which was the trade agreement that we agreed to do. The idea behind the trade agreement was to ensure that all customers in all markets around the world were going to be treated the same way. We weren't going to advantage or disadvantage our

customers here in the U.S. and thereby try to tilt the playing field. So, that's why we went with no dumping in any market. Not just here in the U.S., but third markets as well.

The other thing we put into that agreement was sanctions in the event of non-compliance. And it turns out after the first six months there was a lack of compliance. We went to the Reagan Administration. They saw it as we saw it. They put the sanctions on. As I recall, it was the first of April in '87. And by June we began to see some response. We went back to the government at that time and suggested they start taking the sanctions off, now, because we're seeing them respond. In nine months, they were all gone.

So, it was a good process overall. I think it dealt with a very complex issue in a very fair and equitable way, and the results turned out to be the winners won. We were the most innovative, we were the most cost effective, and we were able to exercise that ability without having predatory practices get in the way.

CHAIRMAN WEIDENBAUM: Is there another side to that issue? Weren't -- weren't there periods where U.S. computer manufacturers ran short of your parts and were at a disadvantage in world markets?

MR. SCALISE: It occurred for a very, very short time to a very small degree. The reason though was -- and this is something we touched on and we didn't push too hard at that point. It was because they violated the agreement once again, which was to restrict their output. We no longer had the capacity here, remember. We had been largely decimated in the D-RAM market, so they took that as an advantage and said, "Okay. We'll not only raise the prices a bit, but we're going to restrict production."

Now, we had -- I remember these negotiations very well, I was sitting outside the door. They came to us at one stage and said, "What if we decide to just restrict our production and restrict our shipments to the U.S.?" We said, "No, we don't want that. We want to make sure that if you are the best suppliers, the lowest cost suppliers, then you get to win. If the Koreans turn out to be the best suppliers, they get to win. But if we're the best suppliers, by God, we're going to win." That was the arrangement and that's how it was done.

COMMISSIONER KRUEGER: I'm just going to inject one thing. Isn't it true, though, that there were some computer assemblers who then moved offshore?

MR. SCALISE: There might have been some. I think it was a very limited number. I don't know if Mike, do you have any other thoughts on that?

MR. MAIBACH: I don't know for sure, but, Mr. Weidenbaum, what happened, in part, Intel invented the D-RAM, and that was the shortage. So, that's the product. We lost 1,200 people in a year, \$200 million on sales of \$1 billion. Sixty four thousand Americans lost their job in that dumping period. And so when eight companies left the D-RAM business -- indeed that's 20 percent of the world's supply -- there was a shortage. The shortage was caused by the dumping.

And then the Japanese who had dumping margins found against them by the ITC and the Commerce Department. We forgave all the duties. We didn't ask for any dumping duties. They had all the different data points in terms of where their prices were, but once that had a meeting in Japan, all their prices became the same. Now, in this country we don't do that. There are anti-trust laws that are enforced. But the prices became the same and their quantities were restricted and the computer companies were angry about that and blamed the trade agreement. That's understandable. But we think the shortage was caused by different activities in the agreement.

COMMISSIONER RUMSFELD: I kind of remembered that the U.S. semiconductor companies were cutting back their investments when they were ahead of the Japanese while the Japanese were increasing their investments. Wouldn't that explain the subsequent shortage of our domestic supply?

MR. SCALISE: No, that was not the case. That was not the case.

CHAIRMAN WEIDENBAUM: Okay. We have limited time. I'm going to ask Commissioner D'Amato to get his follow up question in, and then Commissioners Lewis, Wessel, Rumsfeld and Hills.

COMMISSIONER D'AMATO: I think this is a very important area because I was involved in writing a number of congressional resolutions to support this policy and activity by the industry. In other words, there was an activity that was -- the Administration, the Congress and the industry working together. And to put pressure on the Japanese we needed to put sanctions into place. It took tremendous bilateral leverage to do this. It succeeded, and I think that's a lesson when we need to keep in mind when we're talking about this kind of behavior, particularly when we're talking about intellectual property rights in the future, and when we need to exert bilateral leverage to protect our industry.

When we talk about the joining of China and WTO you talk about the need for a defined set of conditions, and you referred to them on page five, I think. Some of those conditions include an immediate implementation of intellectual property protections. Now, our need is in your judgment to find a set of conditions, performance oriented promise oriented. My problem is I don't see the Chinese performance matching anything that they've promised in the agreements that we've signed with them in intellectual property rights. We keep going back to them and trying to get them to adhere to agreements that they have already signed with us.

This reminds me of the situation that we were in the '80s with the Japanese. My problem is how do we get the Chinese to move to performance oriented conditions, not just promise oriented conditions, in light of the fact that we are now looking toward going into a multilateral forum, reducing our bilateral leverage.

MR. MAIBACH: Well, I think in fits and starts over 20 years, probably. But the good thing is that the -- that the American-British model has been rules based trade. To get the Chinese somehow into rules based trade systems like the WTO would be very imperfect. Sometimes honored in the breach. But the

alternative is to have them outside those rules. And I think the focus in part probably in the future is going to be on the WTO dispute resolution system, how that works, should it be more formal, should it have a sort of a jurisprudence to it, don't know. But certainly having them within a set of rules that you can bring a case is better than the current situation.

MR. SCALISE: We send a delegation to China every year. We spend a number of days in both Shanghai and Beijing. We meet with government, with industry, with our own people, getting a sense of how things are unfolding. And one of the outcomes and one of the learnings that we have developed over the last several years of doing this is the government itself would welcome this help because they know the problem they have. It's a very difficult problem in the way their society is structured today and the way it works and its tradition is functioning. And, yes, as Mike says. Yes, it will be in fits and starts, but it's by far the best thing to do.

CHAIRMAN WEIDENBAUM: Commissioner Lewis.

COMMISSIONER LEWIS: I have a question for each of you. Thank you very much for your statements. Mr. Scalise, I'd like to ask you a question. You referred to not putting American manufacturers at a disadvantage and having a level playing field. If we

allow automobiles to come into America that are made in another country without the air pollution requirements that we impose on American made automobiles, are we putting American car manufacturers at a disadvantage?

MR. SCALISE: Well, again, I think as Mike stated earlier on the other issue, those things get very, very complicated. What we've tried to do in our industry -- and we have as a part of our environmental safety and health program, a worldwide industry meeting once a year where best practice is shared by the Koreans, the Japanese, the Americans, the Europeans, everyone, with the idea that we're all going to employ the same standards whether it is in the U.S. or any other country.

COMMISSIONER LEWIS: Well, that's wonderful, but suppose they don't?

MR. SCALISE: So, that's what we're trying to do and that's what we're trying to promote. I would suggest that others try and do the same thing. I think that would be the answer to your question, get others to get together and decide that there is a value in doing it in this way.

COMMISSIONER LEWIS: Thank you. And I'd like to ask you a question about Intel. I guess your largest facility in the world is in the state I live in, and you're the largest employer in our state.

MR. MAIBACH: Which state?

COMMISSIONER LEWIS: Oregon.

MR. MAIBACH: The largest chip plant in the world is in New Mexico.

COMMISSIONER LEWIS: No, I think you have more employees.

MR. MAIBACH: We have more employees. We have 11,000 in Oregon.

COMMISSIONER LEWIS: Right. How many people do you have in the United States and outside the United States?

MR. MAIBACH: About 68,000. Two thirds are here.

COMMISSIONER LEWIS: Two thirds are in the United States. There was a statement made in the book called Conflict and Cooperation that was sent to us before this hearing. I don't know if you've seen this book.

MR. MAIBACH: No.

COMMISSIONER LEWIS: It was put out by the National Research Council. And there's a statement in here that talks about the difference between producer countries and consumer countries. And we are a consumer country. When it talks about producer countries, it makes this comment:

"In implementing this strategy, the producer oriented countries seek to profit from dynamic opportunities offered by new knowledge based industries such as aerospace and semiconductors. And then it concludes by saying these economies by their scale, rate of growth, increasing regional integration and impacting the world economy post a major challenge to the current international economic order."

I'm just wondering what your reaction is to that statement.

MR. MAIBACH: Well, I haven't read the book. I guess that America is sort of an enigma. I think with five percent of the world's population we are, what, 20 percent of the world's GDP. So, we do pretty well as a producer nation, yet we're also the biggest consumer. We're not much on saving. We're kind of a today culture, obviously.

I think we just have to figure out what works in our society. The savings rate reflects certain things that other countries do. I was in Singapore a couple weeks ago, and the government requires pretty strict things, that half their income is saved. We don't do that here. We barely do Social Security kind of things.

So, I don't know. I think we're a pretty impressive outfit. I think we're really as a culture

set up to be very successful in the e-commerce space that I tried to discuss earlier in my testimony, but I think we're a puzzling lot.

COMMISSIONER LEWIS: Do you think we need new national laws to try to change the deficits that that we're running, whether it's to encourage more savings, or how would you attack the problem of the deficits we're running?

MR. MAIBACH: Well, we're not going to close America. I mean, we're stuck with, whether we like or not -- I like it. But we're stuck with the fact we are an open, open, open society.

COMMISSIONER LEWIS: Correct.

MR. MAIBACH: Everybody is good so we better do all we can to get this rules based system out there to pry open other markets because we're not going to reciprocate and close here.

The other thing is -- and this is the number one thing -- is we better educate smart people to be competitive, because in the end I don't care how open other markets are because if we can't compete with them, we have a problem. And when we have at Intel 80 percent of the Ph.D. engineers that we hire from U.S. universities for jobs in this country are foreign born, you know. We have kids that don't study math and science. Intel's foundation -- \$100 million a year --

100 percent of that money goes to math and science education, mostly for kids. We're going to train or announce soon 100,000 teachers we're going to train in this country. Math and science teachers. Teachers training teachers in the next 3 years. Because we're so concerned about this.

COMMISSIONER LEWIS: Thank you very much.

COMMISSIONER KRUEGER: Commissioner Wessel.

COMMISSIONER WESSEL: I think there was fairly broad support in the '80s when the semiconductor industry faced its problems in not only the trade cases that were brought, but also with the infrastructure that was put in place in the company, et cetera.

The semiconductor industry was somewhat lucky that it had that broad support, but I also assume it was fairly expensive to access the trade laws and to litigate your trade case. Do you have estimates of how much was spent?

MR. MAIBACH: Yes, I know because Intel was a co-filer with national and on the EPROM cases. Actually, D-RAMS and EPROMs. It cost us in legal fees about \$1 million. It was expensive, but certainly we were pleased because it put a tourniquet, that trade case, on the bleeding that was going on in EPROMs, and Intel, today, remains the number one producer of

EPROMs. We would not be the number one. We may not be in that business if it wasn't for the dumping laws.

COMMISSIONER WESSEL: If -- as I understand it, then, there was a question of whether tariffs were going to be applied, and there was a negotiated settlement. If tariffs were to be applied, my understanding is that they would go to the Federal Government and they would not go to the industry. There are some who are advocating that, as I think it's called, -- continued dumping offset -- that the tariffs that might be applied as dumping margins, et cetera, would go to the industry to make -- to strengthen them to be able to fight competitively. What is your view on that approach?

MR. MAIBACH: I haven't given it a lot of thought, but I think when you start taking federal dollars, if you will, and transferring them that way, it probably puts some forces in the market that you don't want, sort of an incentive for dumping cases that you probably don't need. George may have a different opinion on that.

MR. SCALISE: No, I think that Mike is right on. The motivation changes, and that's not what you want. What you really want is to eliminate the predatory practice and not have a reward as a

consequence. Gets you back to where you've got a fair fight.

COMMISSIONER WESSEL: But if a foreign competitor is able to devastate you through a long period of time, if it takes a while to get your dumping margins in place, at that point aren't you somewhat at a disadvantage that the margins can be lifted once they raise their prices, but the damage has been done?

MR. SCALISE: I think the answer is a faster -- fast track process. And that has been improved over the years. I remember when we first filed those cases they weren't accepted with a great deal of enthusiasm by anyone in Washington, either the Hill or the Administration until they saw the data and saw how egregious the problem was, and then it moved along rather quickly. But it wasn't something that was readily accepted. Not at all.

MR. MAIBACH: Our dumping case took about 400 days. And in this industry that's almost a generation or two of cycles. So, you want to have a just-in-time government on something like this if you can get it.

CHAIRMAN WEIDENBAUM: Commissioner Rumsfeld.

COMMISSIONER RUMSFELD: I thank each of you very much for your presentations. Are we going to get a copy of your remarks?

MR. MAIBACH: Yes. I'm sorry. I will get that to you.

MR. ROBSON: Yes.

COMMISSIONER RUMSFELD: Good. One of the two of you, made comments to the effect that there would be the ability to keep the highest powered computers from being exported. You know, that's a valid argument and remains a valid argument with respect to the relationship between the U.S. and today's Russia, where you did worry about transfer of the most advanced technologies. The problem is today that the lesser technologies -- second, third, forth, fifth generation -- in the new national security environment we're in -- can enable a small state or a non-state entity to use those technologies and bring about enormous damage. It seems to me that argument alone isn't good enough. We need to be thinking about the back side of it, which is, that we have to learn to live in a new environment, because when you're dealing with the latent technology, only a few countries are involved, and therefore, a few countries agreeing can keep it from moving to people we don't want it to go to at least for a period. But when you're dealing with

mid and lower level technologies where many countries have access, stopping proliferation is next to impossible. The answer probably isn't to try to stop them. The answer is to get yourself arranged to live in a world where that's the case. It's not a perfect world.

MR. MAIBACH: Right. I have two comments on that. One is -- and obviously I defer to your knowledge in the defense area. One is that it's even worse than you suggest in the terms of a virtual supercomputer. In other words, with certain software you can take several mid range PCs, if you will, that your kids can get, and turn it into a parallel processing machine. So, the genie is really is out of that particular bottle.

The other thing is that at the end of the Cold War we lost CoCom, as you know, and now we have the Washnow Agreement, which is a really loose knit sort of club, and it's not at all with teeth in sanctions. To the extent that the United States and its allies do not do things in a mutually successful manner, I don't think we're going to get to any kind of control of this technology, and I don't see the appetite for it around the world.

COMMISSIONER RUMSFELD: I don't either. The other point is can we support this? U.S.

university research programs are open to everyone. As a consequence, young folks come here, get that Ph.D. and all that knowledge and go back home.

So, the system today promotes a diffusion of technology and information at a rapid rate, and we have to learn to live with it and find other ways of dealing with it.

COMMISSIONER KRUEGER: Commissioner Hills.

COMMISSIONER HILLS: Well, just to tag on to that last comment -- and I want to thank you both for your testimony. It was very enlightening. But when foreign students come here, if they take their intellectual capital home, then some people applaud, saying they have taken western values, their understanding of commerce, ideas on open markets.

But I do want to go back. So much has been said about the dumping laws and so much on the history with the Japanese, which I know you both feel very strongly about. I don't have your written testimony, but I was interested in a phase in your testimony. And you repeatedly used the word "predatory practices." And it occurs to me that if the Japanese market had been perfectly open -- just stick with me on this -- and they sold goods below their cost to this country, but you could turn around and sell into their market to their manufacturers, then the dumping wouldn't have

been the problem. The real problem is that the Japanese had sanctuary at home and kept you out. Isn't that really the issue?

MR. SCALISE: Well, it was both. They actually worked to reinforce one another because I remember selling in Japan in the late '60s, early '70s.

I would go over there and get something designed in. And you worked very hard to get it designed in. And you come back home and you start to see your sales go up and six, nine months later, after they copied it, my sales would go to zero and they would be talking about next generation product. So, there was this insidious arrangement where no matter what you did, no matter how good you were, it wasn't going to change your opportunity to penetrate that market. You were always going to end up at the same point, with just the most advanced products.

The second part of that, then, was taking advantage of what they learned, and through the dumping arrangements come in and dump all these products in the U.S. so both problems had to be solved. They had to be solved simultaneously. And I think that the trade agreement we've crafted -- if one goes and takes a look at it solved both problems -- I taught a case study on this at Harvard for a number of years after we concluded that the agreement -- it was a well-crafted

arrangement that really helped to solve an awful lot of problems and set the stage for a much better trade environment with Japan since that time.

COMMISSIONER HILLS: Didn't that agreement have a percentage market opening because of the closure of the Japanese market?

MR. SCALISE: Well, that was another piece of the -- of what we wanted to do. We went for that 20 percent number for one very good reason. We wanted to have a metric that we could point to. We believed that we actually had the capability to have 40 to 50 percent of that market with what we had in the way of technology and manufacturing cost capability. So, the 20 percent was just a weigh station to what we felt we could eventually get to. And as you may know, in recent times, the foreign suppliers are up to about 35 percent of that market in Japan.

COMMISSIONER HILLS: Which gets back to my point that if the Japanese market had been perfectly open, then the best way to compete was to turn around and to sell into their market. But it wasn't perfectly open. Also, the anti-dumping laws are now used against the U.S. in quite a number of instances. Has that affected your industry?

MR. SCALISE: Not greatly. No. There have been a couple of minor instances, but nothing substantial.

COMMISSIONER HILLS: Do you worry about that in the future?

MR. SCALISE: No. If it's applied in the same way that we view it to be a reasonable application, no.

MR. MAIBACH: We have a lot of due process here, and we have a lot of integrity in our legal system and our governmental system. And to the extent you have black boxes in other capitals, it's going to be a bit of a problem. It doesn't happen to be a problem for our industry now.

I would like to just make a couple of comments on your larger point. The more open markets are, the less we're going to have dumping problems. I do think that there's a distinction that's useful to make, and that is between consumer goods and intermediate goods. If it were TVs I think in the case -- you know, we used to have, what, 30 producers of televisions in this country back in the '60s. We're dumped out of that business.

If the Japanese market had been open for those very cheap TVs we could have re-exported them and changed the whole dynamic of that economics because it

was a final good to a consumer. The problem we faced in integrated circuits was that the eight producers of chips in Japan were also the top eight consumers of chips in Japan. And so we had a very finite set of companies that were working together.

Back in the '60s -- most people don't know this -- we had import substitution laws in Japan. If we made a sale at Intel to, let's say, NEC, before they took delivery they had to pass around a note, the government did, to every other producer of that chip, "Can you meet this quantity, the delivery date and the price? And if so, Intel won't get the sale."

COMMISSIONER HILLS: Haven't you just made my case on sanctuary? Isn't that a perversion of free and open competition? Isn't that a violation of our anti-competitive laws as actual, horizontal collusion, which I think most nations agree is the basis of the anti-competitive laws?

MR. SCALISE: I'm agreeing with you. We had tremendous problems there. And that's why we chose to get into their market rather than to close our market with the dumping duties. We used the dumping cases not to get duties, but to stop the predatory pricing, and then to attack their market, which we've done pretty well.

COMMISSIONER HILLS: Thank you.

COMMISSIONER KRUEGER: I'd like to thank both of you very much. As you can tell, the panel has taken a lot of interest in this. And we could go on much longer, but we have our next session coming up. So, thank you for being with us.

(Whereupon, the hearing went off the record at 11:04 a.m. and went back on the record at 11:07 a.m.)

COMMISSIONER KRUEGER: We are now greatly privileged to have Professor Milton Friedman, now of the Hoover Institution, as our next panelist. Professor Friedman, as you probably were told, the mission of this Commission is to investigate the causes of the United States Trade Deficit and to analyze the factors contributing to it, and possible remedies. We greatly appreciate you being here and look forward first to your prepared remarks, and then, of course, to your responses to the questions. Thank you for coming.